

STANDISH AREA FIRE AUTHORITY  
ARENAC COUNTY, MICHIGAN

FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL INFORMATION  
FISCAL YEAR ENDED JUNE 30, 2005

Michigan Department of Treasury  
496 (2-04)

DEC 05 2005  
12/2

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>STANDISH AREA FIRE AUTHORITY</b>		LOCAL AUDIT & FINANCE DIV. STANDISH
Audit Date <b>6/30/05</b>	Opinion Date <b>11/28/05</b>	Date Accountant Report Submitted to State: <b>12/2/05</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>QUAST JANKE AND COMPANY, CPA'S PC</b>			
Street Address <b>1010 N JOHNSON</b>	City <b>BAY CITY</b>	State <b>MI</b>	ZIP <b>48708</b>
Accountant Signature <i>David Gwizdala</i> CPA		Date <b>12-2-05</b>	

## TABLE OF CONTENTS

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	<u>Page</u>
Independent Auditors' Report	1
Management Discussion and Analysis	2-6
Basic Financial Statements	
Governmental-Wide Financial Statements	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements	
Governmental Funds Balance Sheet	9
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets	10
Statement of Revenue, Expenditures and Changes in Fund Balance Amended Budget and Actual – Governmental Fund Type – General Fund	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	12
Notes to Basic Financial Statements	13-17
Comments and Recommendations Letter	18-19

***Quast, Janke and Company, P.C.***  
*Certified Public Accountants*

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*American Institute of C.P.A.'s*  
*Michigan Association of C.P.A.'s*

**INDEPENDENT AUDITOR'S REPORT**

November 28, 2005

To the Board of Directors  
Standish Area Fire Authority  
Arenac County, Michigan

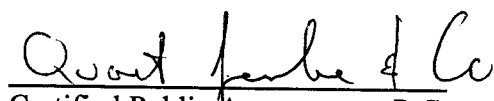
We have audited the financial statements of the governmental activities of the Standish Area Fire Authority as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Standish Area Fire Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Standish Area Fire Authority as of June 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

QUAST, JANKE AND COMPANY

  
Certified Public Accountants, P.C.

**STANDISH AREA FIRE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005**

This section of the Standish Area Fire Authority's June 30, 2005 Financial Report presents Management's Discussion and Analysis of the Authority's financial activities during the fiscal year ended June 30, 2005. The analysis focuses on the Authority's financial performance as a whole. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of the Standish Area Fire Authority exceeded liabilities at June 30, 2005, by \$397,442. Of this amount, \$71,903 59 unrestricted and may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's net assets increased by \$8,794 during the year.
- As of the close of the current fiscal year the department's general fund, reporting an ending fund balance of \$71,086, a increase of \$38,893 in comparison with the prior year.

**USING THIS REPORT**

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Authority's financial activities.

Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of the Authority as a whole and represent an overall view of the Authority's finances.

Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the Authority's operations in more detail than the government-wide statements.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information, other than MD&A, provides information about the required budgetary comparison information.

**REPORTING THE AUTHORITY AS A WHOLE**

The Statement of Net Assets and the Statement of Activities - The Government-wide statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

**STANDISH AREA FIRE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005**

One of the most important questions asked about the Authority's finances is, Is the Authority as a whole better or worse off as a result of the year's activities? The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. These two statements report the Authority's net assets, which are the difference between assets and liabilities, as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the Authority's property tax base and the condition of the Authority's infrastructure are also important in making this decision.

In the Statement of Net Assets and the Statement of Activities, all the activities are reported as governmental activities:

- **Governmental Activities** – All of the Authority's basic services are reported here, such as fire prevention. Local unit contributions and grants finance most of these activities.
- **Business-Type Activities** – The Authority has no business-type activities.

**REPORTING THE AUTHORITY'S MOST SIGNIFICANT FUNDS**

The fund financial statements provide detailed information about individual, significant funds, not the Authority as a whole. Some funds are required to be established by State law and by bond covenants. The Authority can establish other funds to control and manage money for particular purposes (such as construction or capital projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The Authority has one kind of fund:

**Governmental Funds**

The Governmental Funds account for all of the Authority's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street and UDA Grant; the Debt Service Fund; and the Capital Projects Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

STANDISH AREA FIRE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets serve over time as useful indicator of financial position. The following analysis shows the Authority's total net assets at June 30, 2005.

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Current and other assets	\$ 71,903.59
Capital Assets net of accumulated depreciation	<u>460,330.07</u>
Total Assets	532,233.66
<b>LIABILITIES</b>	
Current liabilities	817.55
Long-term liabilities	<u>66,578.00</u>
Total Liabilities	67,395.55
<b>NET ASSETS</b>	
Invested in capital assets net of related debt	
Restricted	393,752.07
Unrestricted	<u>71,086.04</u>
Total Net Assets	<u>\$ 464,838.11</u>

Net assets of governmental activities increased for the year ended June 30, 2005 by \$8,794. The largest portion of the Authority's net assets is invested in capital assets (e.g., fire trucks and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$39,000.

STANDISH AREA FIRE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2005

The following analysis provides the changes in the net assets for the Authority's governmental activities.

	Governmental <u>Activities</u>
REVENUES	
General Revenue	
Grants	\$ 54,013
Local Contribution	91,422
Interest	1,418
Other	<u>17,714</u>
Total Revenue	<u>164,567</u>
EXPENSES	
Public Safety	<u>155,773</u>
Total Expenses	<u>155,773</u>
Increase in Net Assets	8,794
Net Assets, Beginning of Year	<u>456,044</u>
Net Assets, End of Year	<u>\$ 464,838</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The only governmental fund is the General Fund of the Authority. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.



**STANDISH AREA FIRE AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
June 30, 2005

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Authority's investment in capital assets for governmental activities totaled \$460,330.07 (net of accumulated depreciation) at June 30, 2005. Additions for the year totaled \$9,832.

Capital assets, net of depreciation	
Vehicles	\$ 393,986.27
Equipment	<u>66,343.86</u>
Total	<u>\$ 460,330.07</u>

**LONG-TERM DEBT**

At year end the Standish Area Fire Authority had a note payable to Chemical Bank for \$66,578.00 related to the purchase of a fire truck. The note requires annual payments of \$18,105.17 including interest at 3.29% per annum. The first payment was made July 15, 2005.

**ECONOMIC FACTORS**

Our officials consider many factors when setting the Authority's 2005 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and operating activities. If you have any questions or require additional information please contact Administration at Standish Area Fire Authority, P.O. Box 175, Standish, MI 48658.

STANDISH AREA FIRE AUTHORITY  
Arenac County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2005

Assets	
Cash and cash equivalents	\$ 71,903.59
Capital assets being depreciated	
Equipment and vehicles	739,468.00
Accumulated depreciation	<u>(279,137.93)</u>
Net Capital Assets	460,330.07
Total Assets	532,233.66
Liabilities	
Accounts Payable	817.55
Deferred Revenue	-
Non-Current Liabilities:	
Due within one year	15,695.71
Due in more than one year	<u>50,882.29</u>
Total Liabilities	67,395.55
Net Assets	
Investment in capital assets, net of related debt	393,752.07
Unrestricted	<u>71,086.04</u>
Total Net Assets	\$ <u>464,838.11</u>

The accompanying notes are an integral part of these financial statements.

STANDISH AREA FIRE AUTHORITY  
Arenac County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005

Program Expenses:	
Fire and emergency protection- operations	\$ 116,541.66
Depreciation	39,231.40
Interest on Equipment note	<u>0.00</u>
Total program expenses	155,773.06
General Revenues:	
Local unit contributions	91,422.00
Grants	54,013.42
Charges for services	6,969.07
Interest income	1,417.68
Other income	<u>10,744.55</u>
Total general revenues	<u>164,566.72</u>
Change in Net Assets	8,793.66
Net Assets beginning of year	<u>456,044.45</u>
Net Assets end of year	\$ <u><u>464,838.11</u></u>

The accompanying notes are an integral part of these financial statements.

STANDISH AREA FIRE AUTHORITY  
Arenac County, Michigan  
GOVERNMENTAL FUND BALANCE SHEET  
June 30, 2005

<u>ASSETS</u>		<u>General</u>
Cash and cash equivalents	\$	71,903.59
TOTAL ASSETS	\$	<u>71,903.59</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities		
Accounts Payable	\$	817.55
Deferred revenue		<u>-</u>
Total liabilities		817.55
Fund Balance		
Unreserved - Undesignated		43,493.06
Unreserved - Designated for equipment		<u>27,592.98</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u>71,903.59</u>

The accompanying notes are an integral part of these financial statements.

STANDISH AREA FIRE AUTHORITY  
Arenac County, Michigan

RECONCILIATION OF THE BALANCE SHEET FUND BALANCE  
TO THE STATEMENT OF NET ASSETS  
For the Year Ended June 30, 2005

Fund Balances - total governmental funds	\$ 71,086.04
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in fund.	
Add - Capital Assets	739,468.00
Deduct - Accumulated depreciation	(279,137.93)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
	<u>(66,578.00)</u>
Net assets of governmental activities	\$ <u>464,838.11</u>

The accompanying notes are an integral part of these financial statements.

STANDISH AREA FIRE AUTHORITY  
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
AMENDED BUDGET AND ACTUAL  
GOVERNMENTAL FUND TYPE - GENERAL FUND  
June 30, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Local unit contributions	\$ 91,422.00	\$ 91,422.00	\$ 91,422.00	\$ 0.00
Grant income	3,000.00	54,959.00	54,013.42	945.58
Interest	1,000.00	1,500.00	1,417.68	82.32
Charges for services	3,000.00	4,000.00	6,969.07	
Other	7,000.00	12,984.29	10,744.55	2,239.74
<b>TOTAL REVENUES</b>	<b>105,422.00</b>	<b>164,865.29</b>	<b>164,566.72</b>	<b>3,267.64</b>
<b>EXPENDITURES</b>				
Wages and taxes	15,500.00	15,500.00	15,184.98	(315.02)
Rental	100.00	4,500.00	261.00	(4,239.00)
Personal protection	5,000.00	56,959.00	50,510.36	(6,448.64)
Office Supplies	1,000.00	1,098.53	799.13	(299.40)
Foam	2,000.00	2,000.00	-	(2,000.00)
Insurance	18,500.00	19,500.00	19,415.68	(84.32)
Meals	8,000.00	11,000.00	10,223.38	(776.62)
Repairs and maintenance	5,000.00	6,650.76	5,484.26	(1,166.50)
Fuel	2,000.00	2,000.00	1,531.77	(468.23)
Operating supplies	3,000.00	3,000.00	3,041.40	41.40
Legal and professional	2,000.00	2,000.00	-	(2,000.00)
Communications	5,000.00	5,200.00	5,103.47	(96.53)
Training	2,000.00	2,000.00	1,719.52	(280.48)
Contracted services	5,000.00	6,000.00	2,579.09	(3,420.91)
Other operating expenditures	7,467.00	17,457.00	687.62	(16,769.38)
Capital outlay	23,855.00	10,000.00	9,832.00	(168.00)
<b>TOTAL EXPENDITURES</b>	<b>105,422.00</b>	<b>164,865.29</b>	<b>126,373.66</b>	<b>(38,491.63)</b>
<b>REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>38,193.06</b>	<b>41,759.27</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>32,892.98</b>	<b>32,892.98</b>	<b>32,892.98</b>	<b>0.00</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 32,892.98</b>	<b>\$ 32,892.98</b>	<b>\$ 71,086.04</b>	<b>\$ 41,759.27</b>

The accompanying notes are an integral part of these financial statements.

STANDISH AREA FIRE AUTHORITY  
Arenac County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005

Net change in fund balance - total governmental funds \$ 38,193.06

Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities those assets are allocated over the estimated useful  
lives of the asset and reported as depreciation expense.

Add - Capital Outlay

9,832.00

Deduct -depreciation expense

(39,231.40)

Change in net assets of governmental activities

\$ 8,793.66

The accompanying notes are an integral part of these financial statements.

STANDISH AREA FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Standish Area Fire Authority, ("Authority"), was established as an emergency services authority pursuant to the provisions of Michigan Public Act No. 57. It is a joint authority created by contractual agreement between the City of Standish, Township of Lincoln and Township of Standish. Its purpose is to provide fire protection service to citizens residing in the Authority's boundaries. The Authority is governed by a Board of Directors which is comprised of two representatives from each of the participating municipalities. Each board member is appointed by the legislative board of the municipality and requires at least one of the two representative members must also be a member of the legislative body of the municipality.

The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

The accounting policies of the Standish Area Fire Authority conform to generally accepted accounting principles, as applicable to government units. The following is a summary of the more significant policies.

**Governmental Accounting Standards Board Statement No. 34**

For the fiscal year ended June 30, 2004 Standish Area Fire Authority implemented GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis- for State and Local Governments* (GASB 34). This statement affects the manner in which the Authority records transactions and presents financial information.

State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB 34 establishes new requirements and a new reporting model, much like private-sector financial reports, for the annual financial reports of state and local governments. The new format was developed to make annual reports of state and local governments easier to understand and more useful to users of governmental financial information.

*Management's Discussion and Analysis*-GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Authority's financial activities in the form of management's discussion and analysis (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.



STANDISH AREA FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Government-Wide Financial Statements* – The reporting model includes financial statements prepared using full accrual accounting for all Standish Area Fire Authority's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements also include the following:

*Statement of Net Assets* - The statement of net assets is designed to display the financial position of the Primary Government (governmental and business-type activities) and the total of its discretely presented component parts. Standish Area Fire Authority reports capital assets in the government-wide statement of net assets and reports depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net assets of the Authority are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

*Statement of Activities* – The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the Authority's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, Standish Area Fire Authority has recorded capital assets and certain other long-term assets and liabilities in the statement of net assets and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. Implementation of GASB 34 has had a significant impact on the Authority's financial statements for the year ended June 30, 2005.

BUDGETARY INFORMATION

Comparisons to budget are presented for the General Fund as required by generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Authority. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). The Authority does not utilize encumbrance accounting.

DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of deposits in checking accounts, other demand accounts and certificates of deposits with an original maturity date less than 90 days from the original issue date.

STANDISH FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Michigan law authorizes the Authority to deposit and invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investments company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Investments are carried at fair value.

**CAPITAL ASSETS**

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. The Authority defines capital assets as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance are repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

STANDISH FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Machinery and equipment	5-15
Vehicles	8-25

DEPOSITS

At year-end, the carrying amounts and bank balance of the Authority's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 71,903.59	\$ 72,193.14
Insured (FDIC)	\$ 71,903.59	\$ 72,193.14

The Authority's deposits are in accordance with statutory authority.

CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets being depreciated				
Machinery and equipment	129,095	\$ 9,832	\$ 0	\$ 138,927
Vehicles	<u>600,541</u>	<u>0</u>	<u>0</u>	<u>600,541</u>
Total capital assets being depreciated	<u>729,636</u>	<u>9,832</u>	<u>0</u>	<u>739,468</u>
Less accumulated depreciation				
Machinery and equipment	(60,136)	(12,448)	0	(72,584)
Vehicles	<u>(179,770)</u>	<u>(26,783)</u>	<u>0</u>	<u>(206,553)</u>
Total accumulated depreciation	<u>(239,906)</u>	<u>(39,231)</u>	<u>0</u>	<u>(279,137)</u>
Capital assets being depreciated, net	<u>\$ 489,720</u>	<u>\$ (29,399)</u>	<u>\$ 0</u>	<u>\$ 460,331</u>

STANDISH FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2005

2. RISK MANAGEMENT

The Authority is expected to various risks of loss related to claims, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance to provide for these risks.

There was no change in coverage from the prior year. Settled claims have not exceeded the amounts of insurance coverage in any of the last three years.

3. NOTE PAYABLE

Following is a summary of note payable to Chemical Bank for the remaining balance owed on a new fire truck purchase. The note is secured by the fire truck and requires annual payment of \$18,105.17 including interest at 3.29% per annum.

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
7/15/05	\$ 15,695.71	\$ 2,409.46	\$ 18,105.17
7/15/06	16,407.89	1,697.28	18,105.17
7/15/07	16,955.21	1,149.96	18,105.17
7/15/08	<u>17,519.19</u>	<u>585.99</u>	<u>18,105.18</u>
	<u>\$ 66,578.00</u>	<u>\$ 5,842.69</u>	<u>\$ 72,420.69</u>

***Quast, Janke and Company, P.C.***  
*Certified Public Accountants*

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*Members:*  
*American Institute of C.P.A.'s*  
*Michigan Association of C.P.A.'s*

November 28, 2005

Standish Area Fire Authority  
PO Box  
Standish MI 48658

We have audited the financial statements of the Standish Area Fire Authority for the year ended June 30, 2004 and 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Standish Area Fire Authority in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry or management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

#### SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

#### OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have not significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

#### COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

##### SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation. However, additional review procedures by the board would be another process of errors going undetected such as reviewing the interim financial statements, reviewing unusual deposits or expenses and opening and reviewing bank statements.

##### BUDGET

We noted the budget did not include all items required by the Budget Act. The missing items included the beginning and ending fund balances for each year presented. Also, some amendments to the budget were made after an expenditure had been incurred which resulted in an excess expenditure over budget at the time. Budget amendments need to be made in a timely manner.

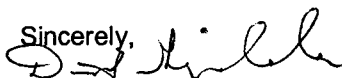
##### AUDIT

The authority was unaware of its requirement to have and file an audit with the State of Michigan for fiscal year ended June 30, 2004 accordingly the audit report for that year was filed late with the State of Michigan. The board is now aware of the filing requirement and has elected to have an annual audit performed.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of Standish Area Fire Authority's financial statements and this communication of these matters does not affect our report on the Authority's financial statements, dated November 28, 2005.

We appreciate the opportunity to present this letter for your analysis and review. This letter is intended solely for internal management and should not be used for any other purpose. We would like to express our appreciation for the cooperation extended to us by the Authority's board and staff during the course of the audit. If you have any questions regarding the contents of this letter, please contact us.

Sincerely,



Quast Janke and Company CPA's  
David Gwizdala, Partner